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__Alan Greenspan's Not Often Wrong — and Certainly Not This Time__

Supporters of Clinton's Public Investment 'Plan' for Social Security Make Critical Errors

In a recent op-ed published in the *Washington Post* [2/23/99], Henry Aaron and Robert Reischauer of the Brookings Institution suggest that, on the matter of the Clinton proposal to allow the federal government to invest in the private sector under the guise of Social Security reform, Alan Greenspan is wrong.

In fact, their article begins by reminding us of some incredible examples where experts were wrong (such as Digital Equipment's founder saying in 1977 that no one would want a computer in their home). Of course, what Aaron and Reischauer don't bother to remind readers is that examples of experts being caught in error are notable precisely because experts are so rarely wrong. And, in this case, as in most, Greenspan is not wrong. What's wrong is Clinton's so-called plan.

Appearing before the House Ways and Means Committee on January 20, 1999, Greenspan had this to say to communicate his strong opposition to Clinton's proposal to allow government investment in the private sector:

> *"What I do not support. . . [is] the investment of government funds, especially Social Security trust funds, in private securities . . . . There are really two reasons for that. One is that despite the Herculean efforts of a number of very thoughtful people to try to find ways to insulate the use of those trust funds . . ., the ability to insulate that, in my judgment, is virtually impossible. . . . Because I do not believe that it is politically feasible to insulate such huge funds from governmental direction, I'm fearful that we will use those assets in a way which, one, will create a lower rate of return for Social Security recipients, but of even greater concern, that it will create sub-optimal use of our capital resources and those assets which create our standard of living."*

To this sobering criticism, Aaron and Reischauer offer three responses.

- They claim that the current federal employees' supplemental retirement plan (Thrift Savings Plan) shows how the Clinton plan could succeed by safely remaining insulated from government decision making.

- They claim the Clinton program will have stringent safeguards.

- Finally, they call on the Founding Fathers' rationale to support their argument: "The Founding Fathers understood every action of government carries some risk . . . they created safeguards to minimize the likelihood of abuse." Thus they conclude that "the answer should be determined by current experience and the credibility of institutional safeguards . . . not by unsubstantiated fears."

Plan, What Plan?

Aaron and Reischauer are basing their conclusions on what are only the barest outlines of the Clinton "plan." Other than a mere mention in his State of the Union Address, no detailed proposal has been delivered to Congress, nor was any detail offered in his latest budget. And what is known of the Clinton "plan" hardly inspires confidence.

√ Of the $4.5 trillion budget surplus Clinton projects over the next 15 years, $2.3 trillion is Social Security's already.

√ Clinton then proposes to credit an additional $2.8 trillion to Social Security on top of that amount — a feat he can't accomplish without double-counting.

√ Finally, Clinton layers on another $30 trillion over the next 55 years in "interest" earned by the phantom $2.8 trillion.

If Clinton's proposal is so dubious in its largest elements, it is hard to share Aaron and Reischauer's faith in its details.

His Plan is No TSP

Even granting Aaron and Reischauer their assumptions about the Clinton proposal, they are wrong regarding its similarity to the Thrift Savings Plan (TSP). TSP's real insulation comes not from its independent directors, nor from its passive investment strategy, but in its 2.3 million *individual* participants. By specifically linking the investments to individual participants, the TSP has the additional oversight of 2.3 million people that the Clinton plan will not have. TSP participants also have recourse from risk by being able to move their holdings — again, something Social Security beneficiaries won't have under the Clinton plan.

"Unsubstantiated Fears"?

Nor are Greenspan's concerns about the Clinton government investment proposal "unsubstantiated fears" as Aaron and Reischauer claim. One can find numerous examples of manipulation of supposedly insulated investments. Perhaps the most focal example was the $500 million in lost returns resulting from the California Public Employees Retirement System (CalPERS) decision to divest from South Africa during 1987-1994.

Writing in the May 1993 *Columbia Law Review,* Roberta Romano lists several examples of "social investment" where public pension funds were pressured to make beneficiaries' returns a secondary consideration. This occurred in the mid-1970s in New York, where state and city pension funds were pressured to aid state agency investments; in Pennsylvania in 1976, where public school and state employees' retirement funds were used to aid a local Volkswagen plant; and in California in 1992, where public employee retirement funds were pressured to aid single family housing construction. In fact, a 1984 survey found almost half (8 of 18) of state pension plans had social investment policies influenced by political pressure.

The Founders' Concerns

Curiously, Aaron and Reischauer's last piece of evidence in support of the Clinton government investment plan attempts to go back to the Founding Fathers. America's founders realized government action carries some risk, but that "government must exercise power to promote the well-being of its citizens."

In fact, Aaron and Reischauer stand the Founders' rationale on its head in their attempt to use the original intent of limited government to justify its largest and most dangerous expansion in our nation's history. As our American government now approaches a precipice where it will soon be unable to honor the limitless promises it has made to its citizenry, such reasoning looks doubtful indeed. Rather, it is Greenspan's warnings that more accurately echo the Founders' prescient concerns and ones that we would do well to heed now.

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